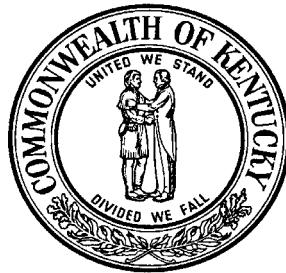


**REPORT OF THE AUDIT OF THE
ALLEN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ALLEN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Allen County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$20,815 from the beginning of the year, resulting in a cash surplus of \$283,500 as of June 30, 2002.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$2,980,000. Future collections of \$4,971,200 are needed to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$149,576, as of June 30, 2002. Future principal and interest payments of \$158,412 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Members of the Allen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Allen County, Kentucky, as of June 30, 2002, the related statement of cash receipts, cash disbursements, and changes in cash balances and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Allen County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Allen County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Allen County, Kentucky, as of June 30, 2002 and the receipts and disbursements, and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Members of the Allen County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 1, 2003 on our consideration of Allen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Allen County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 1, 2003

ALLEN COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Johnny Hobdy	County Judge/Executive
Edward Isenberg, Jr.	Magistrate
Franklin Hogue	Magistrate
Hollis Herald	Magistrate
Billie Hurt	Magistrate
Roman Perry, Jr.	Magistrate

Other Elected Officials:

William P. Hagenbuch, Jr.	County Attorney
James H. Patrick	Jailer
Beverly Calvert	County Clerk
Todd Calvert	Circuit Court Clerk
William E. Foster	Sheriff
Roger Pitchford	Property Valuation Administrator
Michael Wimpee	Coroner

Appointed Personnel:

Melba Patrick	County Treasurer
Beverly Anderson	Occupational Tax Collector
Emily Keith	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

ALLEN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 255,269	\$ 7,116	\$ 2,993
Total Assets	<u>\$ 255,269</u>	<u>\$ 7,116</u>	<u>\$ 2,993</u>
<u>Other Resources</u>			
Amounts to Be Provided In Future Years for:			
Capital Leases (Note 6)	\$ 149,576	\$	\$
Bond Payments (Note 5)			<u>2,977,007</u>
Total Other Resources	<u>\$ 149,576</u>	<u>\$ 0</u>	<u>\$ 2,977,007</u>
Total Assets and Other Resources	<u><u>\$ 404,845</u></u>	<u><u>\$ 7,116</u></u>	<u><u>\$ 2,980,000</u></u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	
<u>\$ 18,140</u>	<u>\$ 283,518</u>
<u>\$ 18,140</u>	<u>\$ 283,518</u>
<u>\$</u>	<u>\$ 149,576</u>
	<u>2,977,007</u>
<u>\$ 0</u>	<u>\$ 3,126,583</u>
<u>\$ 18,140</u>	<u>\$ 3,410,101</u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Leases (Note 6)	\$ 149,576	\$	\$
Bonds:			
Series 1996 (Note 5)			2,980,000
Payroll Revolving Liabilities	18		
Total Liabilities	<u>\$ 149,594</u>	<u>\$ 0</u>	<u>\$ 2,980,000</u>
<u>Equity</u>			
Retained Earnings:			
Reserved	\$	\$	\$
Fund Balances:			
Reserved (Note 9)	192,976	7,116	
Unreserved	62,275		
Total Equity	<u>\$ 255,251</u>	<u>\$ 7,116</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u>\$ 404,845</u>	<u>\$ 7,116</u>	<u>\$ 2,980,000</u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Proprietary Fund Type	Totals (Memorandum Only)
<u>Enterprise</u>	
\$	\$ 149,576
	2,980,000
	<u>18</u>
<u>\$ 0</u>	<u>\$ 3,129,594</u>
\$ 18,140	\$ 18,140
	200,092
	<u>62,275</u>
<u>\$ 18,140</u>	<u>\$ 280,507</u>
<u>\$ 18,140</u>	<u>\$ 3,410,101</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ALLEN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	<u>General Fund Types</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 4,699,135	\$ 2,489,283	\$ 1,259,531	\$ 491,558
Jail Canteen Receipts	65,476			
Other Financing Sources:				
Transfers In	1,070,335	230,282	185,000	51,110
Kentucky Advance Revenue Program:				
Principal	702,000	702,000		
Interest Earned	9,353	9,353		
Lease Proceeds	39,644	39,644		
Total Cash Receipts	<u>\$ 6,585,943</u>	<u>\$ 3,470,562</u>	<u>\$ 1,444,531</u>	<u>\$ 542,668</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 4,358,440	\$ 1,949,857	\$ 1,293,671	\$ 535,206
Jail Canteen Expenditures	58,543			
Other Financing Uses:				
Purchase of Vehicles	39,644	39,644		
Transfers Out	1,070,334	840,052	95,000	
Principal Paid on Bonds	80,000			
Interest Paid on Bonds	169,955			
Principal Paid on Capital Leases	118,489	51,909	49,580	
Kentucky Advance Revenue Program:				
Principal Repaid	702,000	702,000		
Interest Paid	9,353	9,353		
Total Cash Disbursements	<u>\$ 6,606,758</u>	<u>\$ 3,592,815</u>	<u>\$ 1,438,251</u>	<u>\$ 535,206</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (20,815)	\$ (122,253)	\$ 6,280	\$ 7,462
Cash Balance - July 1, 2001	<u>304,315</u>	<u>240,203</u>	<u>8,562</u>	<u>7,857</u>
Cash Balance - June 30, 2002	<u>\$ 283,500</u>	<u>\$ 117,950</u>	<u>\$ 14,842</u>	<u>\$ 15,319</u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Types			Special Revenue Fund Types	
Local Government Economic Assistance Fund	Transfer Station Fund	Special Reserve Fund	Corps of Engineers Fund	Disaster and Emergency Services Fund
\$ 23,624	\$ 340,896	\$ 469	\$ 29,820	\$ 18,535
	180,000	73,500	2,480	8,000
<u>\$ 23,624</u>	<u>\$ 520,896</u>	<u>\$ 73,969</u>	<u>\$ 32,300</u>	<u>\$ 26,535</u>
\$ 22,058	\$ 502,884	\$	\$ 30,532	\$ 24,232
	17,000			
<u>\$ 22,058</u>	<u>\$ 519,884</u>	<u>\$ 0</u>	<u>\$ 30,532</u>	<u>\$ 24,232</u>
\$ 1,566	\$ 1,012	\$ 73,969	\$ 1,768	\$ 2,303
2,575	22,728	5,290	1,577	1,468
<u>\$ 4,141</u>	<u>\$ 23,740</u>	<u>\$ 79,259</u>	<u>\$ 3,345</u>	<u>\$ 3,771</u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

	<u>Debt Service Fund Types</u>		<u>Enterprise Fund Type</u>
	<u>Jail Justice Center Bond Debt Payment Fund</u>	<u>Scottsville-Allen County Public Properties Bond Fund</u>	<u>Jail Canteen Fund</u>
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 382	\$ 45,037	\$
Jail Canteen Receipts			65,476
Other Financing Sources:			
Transfers In	135,000	204,963	
Kentucky Advance Revenue Program:			
Principal			
Interest Earned			
Lease Proceeds			
Total Cash Receipts	<u>\$ 135,382</u>	<u>\$ 250,000</u>	<u>\$ 65,476</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$	\$
Jail Canteen Expenditures			58,543
Other Financing Uses:			
Purchase of Vehicles			
Transfers Out	135,282		
Principal Paid on Bonds		80,000	
Interest Paid on Bonds		169,955	
Principal Paid on Capital Leases			
Kentucky Advance Revenue Program:			
Principal Repaid			
Interest Paid			
Total Cash Disbursements	<u>\$ 135,282</u>	<u>\$ 249,955</u>	<u>\$ 58,543</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 100	\$ 45	\$ 6,933
Cash Balance - July 1, 2001	<u>2,827</u>	<u>21</u>	<u>11,207</u>
Cash Balance - June 30, 2002	<u><u>\$ 2,927</u></u>	<u><u>\$ 66</u></u>	<u><u>\$ 18,140</u></u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

ALLEN COUNTY
STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	Enterprise Fund Type
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 47,486
Payments to Suppliers	(32,335)
Other Payments	(4,174)
Cash Received on Inmate Accounts	9,168
Cash Received for Inmate State Pay	8,822
Cash Refunded on Inmate Accounts	(9,168)
Payments to Inmates for Inmate State Pay	(8,743)
Payments to Fiscal Court	(4,040)
Payments to Others On Behalf of Prisoners	<u>(83)</u>
Net Cash Provided By Operating Activities	<u>\$ 6,933</u>
Net Increase in Cash	\$ 6,933
Cash and Cash Equivalents - July 1, 2001	<u>11,207</u>
Cash and Cash Equivalents - June 30, 2002	<u><u>\$ 18,140</u></u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Allen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Scottsville-Allen County Public Properties Corporation as part of the reporting entity.

Scottsville-Allen County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Scottsville-Allen County Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC: legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Allen County's financial statements.

Additional - Allen County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Allen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Allen County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Allen County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Transfer Station Fund, and Special Reserve Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Allen County Special Revenue Fund Type includes the following county funds: Corps of Engineers Fund and Disaster and Emergency Assistance Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Jail Justice Center Bond Debt Payment Fund and Scottsville-Allen County Public Properties Corporation Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is an enterprise fund used to report an activity for which a fee is charged to external users for goods or services. The Allen County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Allen County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Scottsville-Allen County Public Properties Corporation Bond Fund. This fund consists of funds related to the debt service requirements of a bond issuance. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ALLEN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Allen County Water District is considered a related organization of the Allen County Fiscal Court.

G. Jointly Governed Organization

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the following is considered a jointly governed organization of the Allen County Fiscal Court (Fiscal Court): Scottsville-Allen County Economic Development Industrial Board (Industrial Board), Scottsville-Allen County Recreation Board (Recreation Board), Allen County Ambulance Service, and Scottsville-Allen County Planning Commission (Planning Commission). During fiscal year 2002, the Fiscal Court appropriated and expended the following for jointly governed organizations:

<u>Jointly Governed Organization</u>	<u>Amount Appropriated</u>	<u>Amount Expended</u>
Industrial Board	\$ 25,000	\$ 25,000
Recreation Board	\$ 5,000	\$ 5,000
Allen County Ambulance Service	\$ 0	\$ 0
Planning Commission	\$ 29,000	\$ 29,000

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Short-Term Debt

On April 23, 2002, Allen County Fiscal Court (Fiscal Court) entered into an operating lease with Hobdy, Dye, and Read, Inc. The operating lease was for the use of two tractors and bushhogs for five months for \$1,500 per unit per month. During fiscal year 2003, the Fiscal Court will be required to pay \$15,000 for rental of this equipment.

Note 5. Long-Term Debt

On July 15, 1996, the Allen County Fiscal Court became liable for \$3,275,000 of first mortgage revenue bonds, series 1996, issued by the Scottsville-Allen County Public Properties Corporation. These mortgage revenue bonds were issued at various rates from 5.25% through 5.70%. The bond proceeds were used for the construction of the Allen County-Scottsville Law Enforcement Center. On January 8, 1996, the Common Council of the City of Scottsville voted to lease approximately 18 percent of the debt service requirements. Funds of \$2,993 are available in the sinking funds to meet debt service requirements. Total bonds outstanding as of June 30, 2002, were \$2,980,000. Debt service requirements of the Scottsville-Allen County Public Properties Fund are:

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Long-Term Debt (Continued)

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal - City</u>	<u>Scheduled</u> <u>Principal - County</u>
2003	\$ 165,755	\$ 15,300	\$ 69,700
2004	161,293	16,200	73,800
2005	156,567	17,100	77,900
2006	151,580	18,000	82,000
2007	146,330	18,900	86,100
2008-2012	639,118	117,000	533,000
2013-2017	432,760	162,000	738,000
2018-2021	140,790	171,900	783,100
Totals	<u>\$ 1,994,193</u>	<u>\$ 536,400</u>	<u>\$ 2,443,600</u>

Note 6. Lease Agreements

The county has entered into the following lease agreements:

General Fund - General Fund Type

A. E911 Equipment Lease

On October 1, 1997, the Allen County Fiscal Court entered into a lease agreement with North Central Telephone. The lease agreement was for the purchase of E911 equipment. The principal was \$69,308 at a 10.5 percent interest rate for a period of five years, interest and principal paid monthly. Principal outstanding as of June 30, 2002, was \$8,670. Remaining lease principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	<u>\$ 267</u>	<u>\$ 8,670</u>

B. Copier Lease

On October 27, 1999, the Allen County Fiscal Court entered into a lease agreement with Mita Copystar America, Inc. The lease agreement was for the purchase of a copier. The principal was \$7,194 at a 10.59 percent interest rate for a period of three years, interest and principal paid monthly. Principal outstanding as of June 30, 2002, was \$2,351. Remaining lease principal and interest requirements are:

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Lease Agreements (Continued)

General Fund - General Fund Type (Continued)

B. Copier Lease (Continued)

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 88	\$ 2,351

C. Voting Machines Lease

On September 10, 2000, the Allen County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of voting machines. The principal was \$75,600 at various interest rates for a period of four years, interest and principal paid monthly. Principal outstanding as of June 30, 2002, was \$44,281. Future lease principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 1,409	\$ 19,099
2004	636	20,026
2005	36	5,156
Totals	\$ 2,081	\$ 44,281

D. Vehicle Leases

- 1) On April 18, 2001, the Allen County Fiscal Court entered into a lease agreement with Ford Motor Credit Company. The lease agreement was for the purchase of two cars for the Allen County Sheriff's Office. The principal was \$43,294 at a 6.45 percent interest rate for a period of three years, interest and principal paid yearly. Principal outstanding as of June 30, 2002, was \$14,413. Remaining lease principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 930	\$ 14,413

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Lease Agreements (Continued)

General Fund - General Fund Type (Continued)

D. Vehicle Leases (Continued)

- 2) On March 1, 2002, the Allen County Fiscal Court entered into a lease agreement with Ford Motor Credit Company. The lease agreement was for the purchase of a car for the Allen County Sheriff's Office. The principal was \$19,640 at a 6.55 percent interest rate for a period of three years, interest and principal paid monthly. Principal outstanding as of June 30, 2002, was \$17,547. Future lease principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 965	\$ 6,225
2004	544	6,645
2005	116	4,677
Totals	<u>\$ 1,625</u>	<u>\$ 17,547</u>

- 3) On February 1, 2002, the Allen County Fiscal Court entered into a lease agreement with Farmers National Bank. The lease agreement was for the purchase of a car for the Allen County Sheriff's Office. The principal was \$20,004 at a 5.75 percent interest rate for a period of two years, interest and principal paid yearly. Principal outstanding as of June 30, 2002, was \$20,004. Future lease principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 1,150	\$ 9,722
2004	591	10,282
Totals	<u>\$ 1,741</u>	<u>\$ 20,004</u>

Road Fund - General Fund Type

E. Grader Lease

On March 26, 1999, the Allen County Fiscal Court entered into a lease agreement with Caterpillar Financial Services Corporation. The lease agreement was for the purchase of a grader. The principal was \$116,518 at a 5.6 percent interest rate for a period of five years, interest and principal paid monthly. Principal outstanding as of June 30, 2002, was \$42,310. Remaining lease principal and interest requirements are:

ALLEN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 6. Lease Agreements (Continued)

Road Fund - General Fund Type (Continued)

E. Grader Lease (Continued)

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 1,737	\$ 24,911
Totals	\$ 2,104	\$ 42,310

Note 7. Subsequent Events

On January 28, 2002, the Allen County Fiscal Court voted to accept a joint proposal with the City of Scottsville to enter into a \$510,000 courthouse renovation project. Under the agreement, the Administrative Office of the Courts, Commonwealth of Kentucky, will pay 37% of the cost. The remaining balance of the project will be divided between the Fiscal Court (60%) and the City (40%). In connection with this project, on December 17, 2002, the Allen County Fiscal Court and the City of Scottsville became liable for \$255,000 of first mortgage revenue bond anticipation notes, series 2002 issued by the Scottsville-Allen County Public Properties Corporation (Corporation). These bond anticipation notes were issued at an interest rate of 3.30 percent. The bond anticipation notes proceeds are to be used for the courthouse renovation project. The bond anticipation notes become due on November 1, 2003. The Corporation anticipates issuing revenue bonds of approximately \$510,000. The bond anticipation notes will be paid back from the revenue bond proceeds.

Note 8. Material Grants

A. COPS Universal Hiring Program Grant

Allen County Fiscal Court (Fiscal Court) was awarded a grant under the Community Oriented Policing Services (COPS) Universal Hiring Program from the Department of Justice, United States of America, in the amount of \$254,997 to be expended over six years. Grant proceeds are to be used for the hiring of additional law enforcement officers. During fiscal year 2002, the Fiscal Court received and expended grant funds totaling \$48,600. The unexpended grant balance as of June 30, 2002, was \$0.

B. Animal Shelter Grant

Allen County Fiscal Court (Fiscal Court) was awarded a grant for \$75,000 from the Department of Agriculture, Commonwealth of Kentucky, to provide funds for renovation or construction of an animal control facility. During fiscal year 2002, the Fiscal Court received grant funds of \$67,500 and expended no grant funds. The unexpended balance as of June 30, 2002, was \$67,500.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 8. Material Grants (Continued)

C. Park Improvements Project Grant

Allen County Fiscal Court (Fiscal Court) was awarded a grant in the amount of \$200,000 from the Department for Local Government and the Office of the Governor, Commonwealth of Kentucky, to provide funds for a parks improvement project. The unexpended balance, as of June 30, 2001, was \$159,779. During fiscal year 2002, Fiscal Court received no additional funds and expended grant funds of \$40,649. The unexpended balance as of June 30, 2002, was \$119,130.

D. Water Line Extension Grant

Allen County Fiscal Court (Fiscal Court) was awarded a grant for \$125,000 from the Finance and Administration Cabinet, Commonwealth of Kentucky, acting through the Kentucky Infrastructure Authority, a governmental agency of the Commonwealth of Kentucky, to assist in the construction of water line extensions in Allen County. The unexpended balance, as of June 30, 2001, was \$65,081. During fiscal year 2002, the Fiscal Court received no additional funds and expended grant funds totaling \$58,735. The unexpended balance as of June 30, 2002, was \$6,346.

Note 9. Reserved Fund Balances

Reservations of fund balance represent amounts that are legally segregated for a specific purpose. The following funds had reserved fund balances.

A. General Fund Type

As of June 30, 2002, \$192,976 of fund balance of the General Fund Type was reserved because these funds were legally restricted as follows:

- 1) Allen County Fiscal Court received funds from various grants. These funds are legally restricted to be used for the grant projects. The unexpended balance as of June 30, 2002, was \$192,976. (See Note 8 for breakdown by grant.)

B. Special Revenue Fund Type

As of June 30, 2002, \$7,116 of fund balance of the Special Revenue Fund Type was reserved because these funds were legally restricted as follows:

- 1) Allen County Fiscal Court received funds from a contract with the U. S. Army Corps of Engineers, United States of America for providing law enforcement services at Barren River Lake. These funds are legally restricted to be used for costs of the law enforcement services provided at Barren River Lake. The unexpended balance as of June 30, 2002, was \$3,345.
- 2) Allen County Fiscal Court received funds from disaster and emergency services grants. These funds are legally restricted to be used for the grant projects. The unexpended balance as of June 30, 2002, was \$3,771.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 10. Insurance

For the fiscal year ended June 30, 2002, Allen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

ALLEN COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 2,381,381	\$ 2,489,283	\$ 107,902
Road and Bridge Fund	1,328,117	1,259,531	(68,586)
Jail Fund	409,132	491,558	82,426
Local Government Economic Assistance Fund	16,874	23,624	6,750
Transfer Station Fund	340,351	340,896	545
Special Reserve Fund	100	469	369
<u>Special Revenue Fund Types</u>			
Corps of Engineers Fund	28,350	29,820	1,470
Disaster and Emergency Services Fund	13,298	18,535	5,237
<u>Debt Service Fund Type</u>			
Jail Justice Center Bond Debt Payment Fund	<u>500</u>	<u>382</u>	<u>(118)</u>
Totals	<u>\$ 4,518,103</u>	<u>\$ 4,654,098</u>	<u>\$ 135,995</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 4,518,103	
Add: Budgeted Prior Year Surplus		456,465	
Less: Other Financing Uses		<u>(323,464)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 4,651,104</u>	

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SCHEDULE OF OPERATING REVENUE

ALLEN COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Types	Special Revenue Fund Types	Debt Service Fund Type
Taxes	\$ 1,735,709	\$ 1,735,709	\$	\$
In Lieu Tax Payments	30,864	30,864		
Excess Fees	19,348	19,348		
Licenses and Permits	3,003	3,003		
Intergovernmental Revenues	2,360,201	2,276,567	38,642	44,992
Charges for Services	390,194	390,194		
Miscellaneous Revenues	147,114	137,401	9,713	
Interest Earned	12,702	12,275		427
Total Operating Revenue	<u>\$ 4,699,135</u>	<u>\$ 4,605,361</u>	<u>\$ 48,355</u>	<u>\$ 45,419</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

ALLEN COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,051,506	\$ 1,025,782	\$ 25,724
Protection to Persons and Property	771,689	721,639	50,050
General Health and Sanitation	594,948	578,918	16,030
Social Services	20,558	19,058	1,500
Recreation and Culture	121,899	121,424	475
Roads	1,258,566	1,189,551	69,015
Debt Service	28,858	26,045	2,813
Administration	743,059	621,259	121,800
Total Operating Budget - General Fund Types	\$ 4,591,083	\$ 4,303,676	\$ 287,407
Other Financing Uses:			
Transfers to Scottsville - Allen County			
Public Properties Corporation Fund -			
Principal	65,600	65,600	
Interest	139,364	139,363	1
Capital Lease Agreement-			
Principal on Lease	118,500	118,489	11
TOTAL BUDGET - GENERAL FUND TYPES	\$ 4,914,547	\$ 4,627,128	\$ 287,419

ALLEN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

SPECIAL REVENUE FUND TYPES			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 23,000	\$ 22,729	\$ 271
Protection to Persons and Property	23,674	23,670	4
Administration	10,020	8,365	1,655
TOTAL BUDGET - SPECIAL REVENUE FUND TYPES	<u>\$ 56,694</u>	<u>\$ 54,764</u>	<u>\$ 1,930</u>

DEBT SERVICE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Administration	\$ 3,327	\$	\$ 3,327
TOTAL BUDGET - DEBT SERVICE FUND TYPE	<u>\$ 3,327</u>	<u>\$ 0</u>	<u>\$ 3,327</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Members of the Allen County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Allen County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated July 1, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Allen County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allen County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 1, 2003

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

ALLEN COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

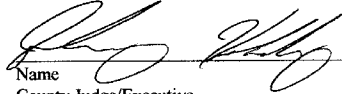
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

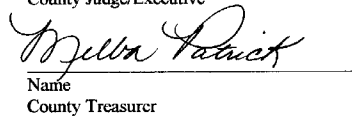
ALLEN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Allen County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

